

25 April 1967

REFERENCES:

- (a) Negotiation Conference of 3 March 1966 at which time various Spares cost elements were discussed and the application of a formula (factor) was presented in connection with the pricing of the Spares Listings).
- (b) Contractor's letter of 9 January 1967 submitting Management Proposals.
- (c) Contractor's letter of 10 March 1967 submitting substantiating information relative to the Spares Management Proposal.

PROBLEM: Contractor's recovery of costs attendant to Spares Procurement, identified as "Management Costs" - consisting of (i) Electronic Data Processing (Computer Time), and (ii) Program Management Logistics Personnel. The foregoing cost(s) are not included in individual Spares Listings as incorporated under Contracts FH-7321 (CPC Procurement) and FH-7322 (Follow-On EMR Program) to date, nor will same be included if existing procedures are adhered to for the outstanding (remaining) lists.

CAUSE OF PROBLEM: Possible oversight in not bringing the matter of an independent Spares Management Effort (proposal) directly to the Contracting Officer's attention during the early part of 1965 at which time Spares Pricing procedures were being formulated.

CAUSE OF PROBLEM (con't):

In the Contractor's judgement the fact that the independent Management effort did not come up for discussion during the 3 March 1966 Conference is coincidental.

GENERAL INFO:

1. Contractor's reasons for segregating Management Cost - Independent Management effort judged appropriate at the outset in that it established a realistic base cost for the individual Spare Part which is of definite value for re-procurement purposes. Management Effort Cost's (EDP, Program Office Logistics Personnel & Transportation Costs as included at the outset) will become non-recurring insofar as re-procurement is concerned.
2. Re those elements of cost that have been included in Spares Lists incorporated under Contract to date:
 - (A) From the reference (a) conference cost(s) that can be and those which cannot be estimated for each individual Spares Item are set forth in the "Flip Chart" presentation.
 - (B) Reference (C) correspondence provides an explanation of the Contractor's basic intent and comments on the "Flip Chart" presentation.
 - (C) Cost(s) as reflected in Spares List compiled to date (Factored & Non-Factored) are essentially "Typical Processing Cycle" cost(s) -
see chart.

GENERAL INFO (cont'd):

3. Re Those elements of cost (Program Management) that have been EXCLUDED from Spares Lists to date:

(A) Reference (b) correspondence sets forth the Contractor's proposal of [REDACTED] STATINTL

(B) Cost(s) are essentially incurred independent of the "Typical Processing Cycle" cost(s)- see chart.

EXPLANATION OF SPARES PRICING FORMAT

1st Level Report - 3 sections - Selling price by line item and summaries

Section 1 - Sort of modular spares by PPB number.

Section 2 - Sort of modular spares by part number STATINTL

Section 3 - Sort of 45 day list spares by part STATINTL

1st level report prices are the result of factoring the cost amounts (level 2 reports) by adding level of effort costs and fee.

$$(i.e.) \frac{\text{cost amounts (level 2) + level of effort costs}}{\text{cost amounts (level 2)}} \times \text{fee} = \text{Pricing Factor}$$

$$\therefore \text{Price} = \text{Pricing factor} \times \text{cost amount (level 2)}$$

2nd Level Report - 3 sections - Cost amounts & Index by line item and summaries.

Section 1 - Sort of modular spares by part number STATINTL

Section 2 - Sort of 45 day list spares by part STATINTL

Section 3 - Index of bill of materials by part number displaying used-on reference by IBM sequence number. (IBM sequence numbers are assigned by the computer as follows:

- 1.) Attrition numeric (APRs)
- 2.) APR numeric for mod. spares
- 3.) 45 day list numeric

(i.e.) Group 1 - Sequence nos. 1-100 by part number STATINTL
 Group 2 - Sequence nos. 101-200 by part number STATINTL
 Group 3 - Sequence nos. 201-300 by part number

2nd level costs are determined from the compilation of detail costs in level three reports. In addition, the detail costs at this point are burdened with the appropriate overhead and G & A rates.

The compilation of costs collects pertinent elements as follows:

1) For modular spares

Level 3 APR Mfg. costs

Level 3 APR Eng. test costs (if applicable)

*Level 3 attrition costs (Mfg. & Eng. test) if applicable

*Attrition costs are evenly distributed against the proportional quantity required for each line item (level 2)

- 2 -

(i. e.) - 2 ea. attrition units of APR unit #240800-1 attrition (level 3) are required to sustain the total required quantity (APR Level 3) of 20 ea. similar units. The total costs for the building of 22 ea. units is compiled and used as the base total costs for the required quantity of 20 ea. units. For each application of the required quantity the cost for 1 ea. is 1/20th of the total costs for 22 ea.

2) For 45 day list spares (no attrition)

Base costs from level 3 - 45 day list spares Mfg. and Eng. test (if applicable) are burdened and combined thereby determining the cost for each line item.

3rd Level Report - 6 sections - base cost amounts by APR line items and 45 day list line items.

- Section 1 - Base cost amounts by Mfg. (Attrition) APR line items
- Section 2 - Base cost amounts by Mfg. APR line items
- Section 3 - Base cost amounts by Mfg. 45 day list line items.
- Section 4 - Base cost amounts by Eng. Test Attrition APR line items (if appl.)
- Section 5 - Base cost amounts by Eng. Test APR line items (if appl.)
- Section 6 - Base cost amounts by Eng. Test 45 day list line items (if appl.)

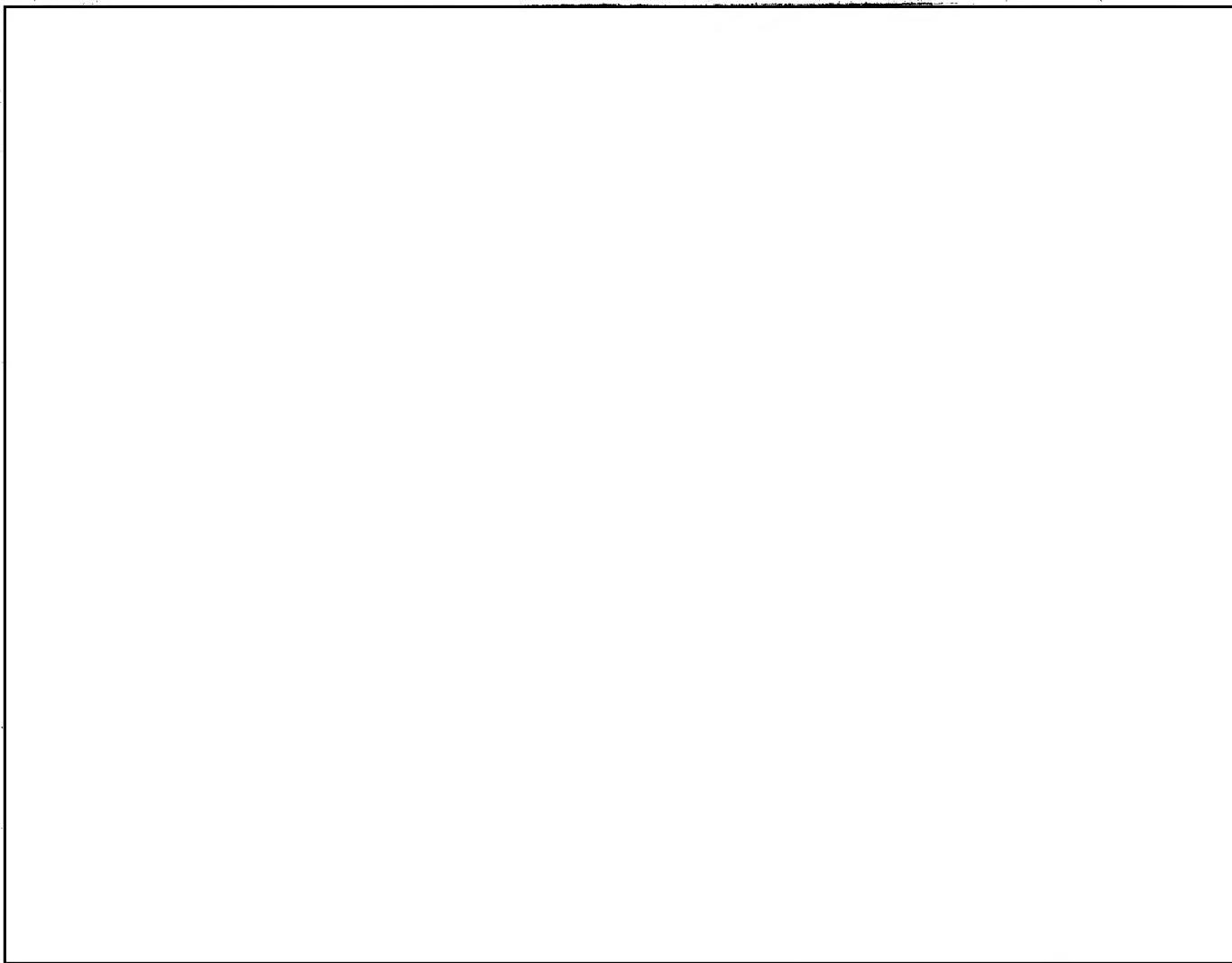
Costs for APRs and 45 day list items are derived from low level numeric (level 4) and compiled per their application with an even distribution of total costs for pertinent parts.

4th Level Report - 3 sections - base cost amounts for all bill of material items.

- Section 1 - J.O. 4928-55 - Base cost amounts by Mfg. for all items except "as required" items.
- Section 2 - J.O. 4928-56 - Base cost amounts by Eng. Test (if appl.) for all items except "as required" items.
- Section 3 - J.O. 4928-58 - Base material cost amounts for "as required" items. (Not included in costed APRs. See level of effort cost backup for inclusion of this amount).

- 3 -

These reports reflect the actual quantity required including attrition to which shrinkage is applied. (Two columns appear showing the actual quantity (incl. attrition) and total quantity including shrinkage). The labor shown is for the total quantity and the extended cost/with shrinkage is the result of total quantity multiplied by the purchase unit price. An adjusted unit cost is developed for application to the APRs. This adjusted unit cost is calculated by dividing the actual quantity into the total labor and extended cost.



28 Sept. 1965

Attrition

Attrition represents additional subassemblies that must be fabricated and assembled. The purpose of attrition is to ensure that the assembly and testing of higher order assemblies may be accomplished with minimum delays in the event of a subassembly failure. Without additional subassemblies on hand, it would be impossible to ensure meeting of delivery requirements for higher order assemblies. If a subassembly fails during higher order assembly testing, it will be replaced by an attrition subassembly and the testing can continue while the inoperative subassembly is repaired. If the attrited item were not available the testing of the higher order assembly would have to be delayed until the subassembly were repaired or replaced. This could involve the repurchase of long-lead time parts and could delay final assembly by many months.

The Engineering department has estimated those items to be attrited and the quantities thereof based on their experience assembling and testing similar items required under the manufacturing program.

Shrinkage

Shrinkage represents additional purchased parts required. The purpose of shrinkage is to ensure that sufficient detailed parts are always available so that assembly of all items can be accomplished in such a manner as to meet end item delivery schedules. It is required as detailed purchase parts are subject to handling loss and, in the case of electrical parts, "burn out" during assembly and testing.

Level of effort -

STATINTL

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